



# California High-Speed Rail Authority

## Status update on P3 strategy



**Infrastructure  
Management  
Group/Lehman Brothers  
Team**

*In Partnership with:*  
**Sperry Capital  
Bauer & Associates  
Jack Faucett Associates  
CDS Consulting  
Dutch Ventures LTD**

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**In 25 interviews with contractors, equipment manufacturers, financiers, and system operators the following key themes emerged:**

- Private sector interest is strong and diverse
  - Size and complexity attracts some & concerns others
  - Mixed views on pre-development possibilities
- State support is essential
  - Visible political support needed from State leadership
- Structure and timing of P3 procurement
  - Milestones: environmental, RoD, and other funding commitments

**25 interviews with:**  
**4 equipment manufacturers**  
**8 contractors**  
**11 financiers**  
**6 system operators \***

\* Note: some operators and equipment manufacturers overlap



### **Infrastructure finance has caught the private equity fever**

- Traditionally, U.S. transportation infrastructure has been financed through state and federal grants as well as revenue bonds
- In Europe, Asia and now Africa, a number of high-speed rail projects are being financed under P3 schemes
- New funds entering U.S. market on a regular basis
  - Includes first-mover Australian pension funds
  - Major US financiers have created funds
  - US Pension funds are showing increasing interest
- Billions of dollars are available for investment in US infrastructure due to increasing interest

## Examples of Funds and Investors in U.S. Infrastructure



1. AIG
2. Alaska Permanent Fund
3. Alinda
4. Allstate Insurance Company
5. Arclight
6. Australian Infrastructure Fund
7. Babcock and Brown
8. Borealis/OMERS
9. Blackstone
10. Canadian Pension Plan
11. Caixa/Caja Madrid
12. CalPERS
13. CalSTERS
14. Carlyle Group
15. CapitalSource
16. Citibank Infrastructure Fund
17. Deutsche Bank RREEF
18. Dubai Investments
19. Goldman Sachs
20. GE Capital
21. Infratil
22. John Hancock
23. Lehman Brothers Fund
24. Macquarie Infrastructure Fund
25. Metropolitan Life
26. Morgan Stanley Infrastructure Fund
27. Michigan Department of Treasury
28. Meridiam Infrastructure
29. New York Life
30. NY Teachers Retirement Plan
31. Northwestern Mutual Life
32. Ontario Teachers Pension Plan
33. PA Public School Employees' Retirement System
34. Prudential Financial
35. Teachers Insurance
36. Virginia Retirement System
37. Washington State Investment Board



### **Private equity investment to date has focused on stable, long-term assets**

- Typically many funds seek projects with similar characteristics:
  - Brownfield assets
  - Developed revenue streams
  - Long term asset control
  - Projects in the \$0.5 to 4 billion range
- Key examples in the US in the toll road sector:
  - Chicago Skyway
  - Indiana Toll Road
  - TxDOT comprehensive development agreement toll roads



**Keen competition has reduced the availability of potential projects; funds are now looking at alternative industries and project characteristics**

- Deal flow is a concern for funds which appear to be oversubscribed
- Funds are increasingly looking beyond traditional projects:
  - Greenfield projects
  - Larger projects - ex.: \$15 billion PA Turnpike
  - Availability payment structures
  - Industries beyond the toll road sector - rail, water utilities
- Key examples
  - Miami Tunnel
  - Oakland Airport Connector



**Participation in the project is of considerable interest to all parties; however, each interviewee had specific concerns:**

- Financiers stressed the need to partner with other firms to see the project through to completion
- Equipment manufacturers were reluctant to commit to playing a role as (lead) concessionaire
- Contractors indicated they would need to assess their ability to handle a large project and consider potential opportunity costs
  - Bond capacity limits would require joint-venturing
- Operators indicated their willingness to play a significant role in a concession
- All parties require **strong political support** and the **mitigation of environmental risks** to participate to any extent





**Many interviewees are willing to be involved early in the process; however, several key issues were raised by various participants.**

- Financiers indicated a concern about receiving quality bids if the Authority has an established preferred bidder
- Equipment manufacturers were willing to be involved as early as possible in various roles
- Contractors are concerned with extended pre-construction involvement and the overall procurement plan
- Operators stressed the importance of being involved in all parts of the process to ensure they have a role in the development of the system that may become their responsibility





**The size of the project is a challenge; most interviewees stressed the need to segment the system either geographically or functionally**

- Financiers indicated a need to break the project up, ideally in segments under \$5 billion
- Equipment manufacturers discussed the need to combine equipment and control systems contracts as well as potentially other systems contracts (signaling, electrification)
- Contractors indicated the need to geographically segment civil works contracts
- Operators indicated the need to separate civil works contracts from the P3 concession



### **Ridership risk is a key concern of all players and the level of risk each is willing to assume varies widely**

- Financiers indicated that U.S. financial markets are deep and that money is available if risks are adequately addressed
- Equipment manufacturers were reluctant to accept ridership risk, but would guarantee equipment over the life of the assets
- Contractors were slightly more willing to accept some risk--around 10% of their contract value, but feel that this risk is best borne by the private sector
- Operators indicated their understanding that they have a direct influence on ridership and should take some risk
  - However, they do not feel full ridership risk is appropriate as the State also influence over ridership

## Requests for Expressions of Interest Framework and Timing



The RFEI serves to both communicate information about the project but also to better understand future private sector involvement.

- Communicate information about project to interested parties.
- Suggest potential future roles for interested parties.
- Solicit feedback from parties about their interest, concerns, criteria for future involvement, timing of participation, funding structures, etc.
- Allow Authority and advisors to more accurately assess potential capacity, timing, and conditions related to private sector participation.
- Not a prerequisite for any future Authority solicitation of qualifications or proposals related to the project.





**Updated information available in coming weeks & months will be incorporated into a revised financial plan:**

- Ridership and Revenue forecast revisions: revenue estimates based on a more developed fare structure
- Cost refinements: construction and operational costs as available
- Funding source assumptions: State, federal and other/local strategic partnership funding updates
- Review of international HSR P3 project structures